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June 11, 1985

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MEMORANDUM FOR THE ECONOMIC POLICY COUNCIL

FROM: ROGER B. PORTER *RBP*

SUBJECT: Agenda and Papers for June 14 Meeting

*Cook Inlet Oil
TO's concern*

The agenda and papers for the June 14 meeting of the Economic Policy Council are attached. The meeting is scheduled for 4:30 p.m. in the Roosevelt Room.

The first agenda item is an overview of U.S.-E.C. trade relations. At the June 5 meeting, the Council requested the Department of State and the Office of the U.S. Trade Representative to prepare a strategy paper for U.S.-E.C. trade relations. A copy of that paper is attached.

The second agenda item concerns Cook Inlet crude oil exports. The Department of Energy has prepared an options paper on the issue of whether the Administration should pursue the actions necessary to permit the export of Cook Inlet crude oil. A copy of that paper is also attached.

Attachments

Confidential Attachment

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ECONOMIC POLICY COUNCIL

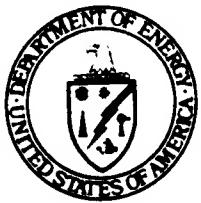
June 14, 1985

4:30 p.m.

Roosevelt Room

AGENDA

1. U.S.-E.C. Trade Relations
2. Cook Inlet Crude Oil Exports



THE SECRETARY OF ENERGY
WASHINGTON, D.C. 20585

June 7, 1985

MEMORANDUM FOR THE ECONOMIC POLICY COUNCIL

FROM: John S. Herrington

SUBJECT: Cook Inlet Crude Oil Exports

John S. Herrington

ISSUE: Should the Administration pursue the actions necessary to permit the export of Cook Inlet crude oil?

Background

- In bilateral discussions, Japan and Korea have indicated strong interest in importing crude oil from Alaska. They believe that access to U.S. crude will help further diversify their sources of supply and enhance their energy security.
- The Reagan-Nakasone Joint Statement on Japan-U.S. Energy Cooperation in November 1983 recognized the benefits of lifting the restrictions on crude oil exports and stated that the "U.S. will continue to keep under review the removal of restrictions on exports of domestic crude oil."
- While the export of Alaskan North Slope (ANS) crude is effectively prohibited by law, fewer legal constraints apply to oil produced in Alaska's Cook Inlet.
- There are five separate but often overlapping statutes that restrict exports of U.S. crude oil, but the restrictions of four of them (the EAA is the exception) can be waived by specific Presidential findings.
 - the Export Administration Act (EAA), which restricts only Alaskan North Slope oil;
 - the Mineral Lands Leasing Act (MLLA), which restricts the export of any oil that crosses a federal right-of-way, as defined in the MLLA;
 - the Outer Continental Shelf Lands Act (OCSLA), which restricts the export of OCS oil;
 - the Naval Petroleum Reserves Production Act (NPRA) which restricts NPR crude (and refined product) exports; and
 - the Energy Policy and Conservation Act (EPCA), which restricts all domestic crude oil exports.

- Cook Inlet oil is subject to just one statute, EPCA, because production is from state waters (not OCS), and because the gathering lines that bring the oil to shore terminals do not cross any MLLA right-of-way.
- Cook Inlet exports would be possible if:
 - the President or the Secretary of Commerce found under the Energy Policy and Conservation Act (EPCA) that such exports are in the national interest; and
 - the Department of Commerce amended its Export Administration Regulations.
- Total Cook Inlet production is about 60,000 barrels per day (B/D) of 35° API waxy crude, declining at 15 percent per year. About 15,000 - 30,000 B/D is being made available for export by Tesoro's decision to upgrade its refinery at Cook Inlet to run higher sulfur ANS crude.
- The other 30,000 B/D of production is owned by Union Oil and used in Union's West Coast refinery; Union does not want to export this crude at present.
- Governor Sheffield in March wrote to Prime Minister Nakasone offering to sell Japan Alaska's royalty share of Cook Inlet production (6,000 B/D). The Republic of Korea has also expressed its interest in this crude.
- The Far East could be a more profitable market for Cook Inlet crude than the lower-48 because of lower shipping costs. The estimated per barrel cost to ship to Japan is \$.67, compared to \$1.24 to the West Coast and \$4.35 to the U.S. Gulf.
- Exports would therefore yield higher netbacks to producers. Much of the gain would accrue to government through higher State and federal tax and royalty receipts.
- Since the crude to be exported is refined and consumed in Alaska, it does not now use U.S. tankers. Even if shipped to the lower-48, it would only employ 6-8 tanker trips per year.
- Consultations with members of the Congress on Cook Inlet exports have uncovered strong opposition from some members. A decision to allow export of Cook Inlet would require development of a legislative strategy with input from the White House, and the Departments of Commerce, Energy, State and Transportation to insure that the initiative is properly explained and that other pending legislation, such as Energy Policy Conservation Act (EPCA) and the Export Administration Act (EAA), is not adversely affected.

- Opposition would also be encountered from Maritime interests who may fear that export of Cook Inlet oil would be the first step to remove controls on export of ANS crude oil.
- Were the President to issue the requisite EPCA finding, the Commerce Department advises that it would take approximately 3 months to complete the regulatory revisions allowing actual export.

Options

- There are three basic options regarding the export of Cook Inlet oil: (1) move to allow such exports; (2) pursuing Cook Inlet exports only as part of a broader strategy to liberalize Alaska North Slope and other U.S. crudes; and (3) delay a decision on Cook Inlet pending consultations with the Congress to see what export strategy would be acceptable.

Option 1: Allow Cook Inlet oil to be exported: Initiate a national interest finding; direct the Department of Commerce to make the necessary regulatory changes; and implement approach to Hill to gain acceptance.

Advantages

- This option is consistent with Administration policy to rely on the market by removing remaining barriers to trade.
- By fulfilling one of the commitments on energy cooperation, this action will be viewed positively by Japan and Korea, and will be useful in discussions on other energy issues such as coal and LNG. ←
- Producers of Cook Inlet oil would find a closer, more profitable market in the Far East compared to the lower-48. Federal and State treasuries would gain more in royalty and tax receipts from Cook Inlet oil exports.
- Export would demonstrate U.S. commitment to the energy security concerns of key allies.
- Limited Cook Inlet exports could over time improve the climate for export of ANS crude.

Disadvantages

- Given the small amount of crude involved (15,000-30,000 barrels per day) national security benefits would be small, as would energy security benefits to recipients (i.e. 15,000 B/D represents less than 1 percent of Japan's crude imports.)

- Congressional opposition could be very strong and may endanger passage of other legislation such as the EAA and EPCA.
- Would require developing rational as to why only export controls on Cook Inlet oil are being lifted but not controls on any other oil that might be equally eligible for export under EPCA.

Option 2: Do not allow Cook Inlet oil to be exported at this time; instead, await and strive for liberalization of the export controls on Alaskan North Slope and other crude oil, before allowing Cook Inlet oil to be exported.

Advantages

- This approach would avoid a potentially divisive confrontation with the Congress for the export of a small volume of crude.
- The real gains from exporting Alaskan oil are based on a significant savings in transportation and refining activities which would arise from allowing larger volumes of exports. Permitting exports of Cook Inlet oil would have small economic benefit.

Disadvantages

- This comprehensive approach could significantly delay further success in liberalizing the export of certain crudes in which buyer and seller interest has been expressed, as in the case of Canada and Cook Inlet.
- The Administration could be perceived by allies (Japan and Korea) as unwilling to tackle the crude oil export issue, and this could lead them to modify any efforts on their part to increase imports of other U.S. energy resources. ←
- Permitting Cook Inlet oil exports would be a first step in fostering economic efficiency in oil transportation. It would demonstrate to opponents of Alaskan North Slope oil exports that lifting an injunction on free trade would allow rather than require, producers to sell oil based on the relative profitability of markets.

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Option 3: Delay a decision on Cook Inlet exports pending consultations with members of Congress on Cook Inlet exports and the broader issue of crude oil exports to determine what strategy or volume of export would be acceptable.

Advantages

- Would allow time to gauge the climate in the Congress and might result in the formulation of an export strategy that would have a greater chance of success.

Disadvantages

- Strategy might delay prospects for Cook Inlet exports and be interpreted as reluctance on the part of the U.S. to undertake an export initiative.